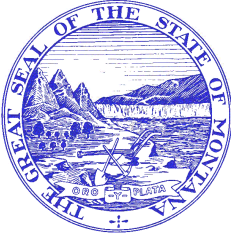


DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION

Trust Land Management Division



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OTTER CREEK COAL PROPERTY APPRAISAL REQUEST FOR COMMENTS

April 28, 2009

Dear Reader:

The Montana Department of Natural Resources and Conservation appreciates your interest in the development and management of the Otter Creek school trust coal property. The attached appraisal document represents the culmination of a multi-year effort to gather and provide both technical resource and project financial information to the Land Board, interested companies and the public.

Located southeast of the town of Ashland in western Powder River County, the Otter Creek coal property contains over 1.2 billion tons recoverable coal reserves. One half of the reserve is located on what is now Montana school trust land. The other half of the coal reserve is privately owned, with the vast majority held by Great Northern Properties LP. (GNP) The ownership pattern resembles a checkerboard, with GNP and the State owning alternating sections. Both parties must participate for coal to be developed.

The state school trust originally held three sections within the Otter Creek property. However in 2002, a settlement involving the Federal government, the Northern Cheyenne Tribe and the State Land Board completed the transfer of an additional 12½ sections of federally owned coal and mineral rights to Montana's public (i.e. K-12) school educational trust. Revenues generated from management of the public school trust help fund Montana schools statewide.

The department utilized funding from the 2003 Legislature to obtain additional drill and core hole data on the state's Otter Creek ownership. This data was combined with federal and GNP data to produce the 2006 Otter Creek Property Summary Report, the most detailed analysis to date of the total coal resource. The attached appraisal document utilizes technical data from the 2006 property report and develops an estimate of fair market value of the state's ownership. State statute requires the preparation and public review of an appraisal for the Land Board's consideration prior to offering school trust coal properties out for competitive leasing. A coal appraisal serves a specific purpose – it provides the financial terms (bonus bid, rental and royalties) which together represent the full, fair market value of the property that may be offered for lease. An appraisal is not an environmental analysis. If the property were leased by the Land Board, and if the lessee submits a proposed plan for development, a detailed MT-DEQ mine permit review, including public review and comment, prepared pursuant to MEPA would be required.

This appraisal was completed according to the methods specified in the Bureau of Land Management (BLM) Handbook H-3070-1, *Economic Evaluation of Coal Properties*. The handbook provides two separate methods for determining a coal property's value, and both were utilized in this appraisal.

Appraisal standards require consideration of the costs involved in delivering coal to market. The base appraisal therefore includes the financing cost for a rail line between Otter Creek and Miles City. This produces a minimum bonus bid of \$0.065 per ton. At the department's request, the appraiser also calculated the minimum bonus bid assuming the rail line was separately financed. This increased the minimum bonus bid to \$0.10 per ton. The appraisal yields the following estimated value for the state property that may be considered for lease and development.

Minimum Bonus Payment: \$37.3 million (\$57.2 million if rail line is separately financed)
Annual Rentals (\$3/acre): \$1.0 million (over 40 years)
Royalty Payments (12.5%): \$1.4 billion (over 40 years)

Additional information is available on our website at: http://dnrc.mt.gov/trust/MMB/otter_creek

Please submit comments to me in writing by July 31, 2009:

Monte Mason, Minerals Management Bureau Chief

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PO Box 201601
Helena, MT 59620-1601

By fax: 406-444-2684

By email: mmason@mt.gov

You may also provide comments at either of two scheduled public meetings, one in Lame Deer and one in Miles City, Montana. Please visit our website for further information on dates, locations and times for these meetings.

It is anticipated the lease appraisal and comments will be considered by the Land Board at their regularly scheduled September 2009 meeting. At that time, the Land Board will be evaluating whether and on what terms to offer the state school trust lands for lease.